RESEARCH FRONT

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A BREIF PROFILE OF SALEM COOPERATIVE URBAN BANK LTD.

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ABSTRACT

Urban Co-operative Banks were giving banking facility to grass root persons. The concept of "Financial Inclusion" is inbuilt in the structure of Urban Co-operative Bank. As Urban Co-operative Banks are mostly working in the rural and semi-urban areas they understand the genuine commercial needs of the local population in their area of operation. Urban co-operative banks ranked a very significant position in the Indian banking sector. Urban Co-operative Banks help small and medium sized traders, entrepreneurs, artisans and farmers who are deprived of banking facility as private sector and commercial banks tap only high profile and successful entrepreneurs. Competent management is prerequisite for the success of any organization. At present highly competitive and globalized business environment, there is an urgent need of professional management for the successful controlling and managing the affairs of the urban co-operative banks. Increasing political hindrance in co-operatives has also affected the strong growth of the cooperative organization. In order to make the management of these banks professional and managing the affairs of these banks on scientific lines, there are several institutions which are directly or indirectly connected involved in imparting education and training to all levels of management.

Key words - Urban Co-Operative Banks, Financial Inclusion, Government, Reserve Bank of India, Banking System.

INTRODUCTION

The urban cooperative credit movement in India also started for catering to the banking credit needs of the urban middle classes, i.e., the traders and businessmen, artisans and factory workers and salaried people with fixed incomes in urban and semi-urban areas. Not only that, it is also expected to develop amongst the people the habit of thrift and saving. It also provides opportunities for investment and thus helps the people of low means to cover up the period of difficulties. Truly speaking, the seed (need) of urban cooperative movement was sown by the Mac lagan Committee (1915). The Committee said: "Urban credit societies might serve useful purpose in training the upper and middle classes to understand ordinary banking principles. The urban cooperative banks occupy a significant place in the urban cooperative credit movement. They advance loans mostly to small traders, artisans and salary-earners on personal security as well as against gold, silver, etc. They also accept deposits and thus provide banking facilities for investment to persons of small means. They also provide banking facilities to their members and customers. According to the Study Group on Credit Cooperative in the non-agricultural sector, any credit organization which is registered under the State Cooperative Societies Act, which has a minimum paid up capital of Rs.50,000 and which provides banking facilities to its members and customers in urban and semi-urban areas can b considered as an urban cooperative bank.

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STATEMENT OF THE PROBLEM

Cooperative Bank failures have been relatively high in recent years. While each bank failure is a somewhat a unique experience, recent studies have identified a few factors that most failing banks seems to have in common. Most banks that fail seem to do so because of problems in their loan portfolio. Nonperforming loans grow to such an extent that revenues fall off and loan loss expenses as well as operating costs, absorb all the earnings that remain. The bad loan situation usually arises from a combination of factors. Failing banks often have inadequate systems of spotting problem loan early. Finally, failing banks frequently have expense control problems. Management may invest the banks money in lavish offices and enjoy handsome fringe benefits that the banks' earnings simply cannot support. When the banks troubles become evident to depositor, it must then pay higher interest rates to secure finding, further increasing its operating costs. Eventually expenses may erode what limited earnings are available and bank capital begins to fall.

Urban Cooperative Banks plays a vital role in fulfilling credit needs of the urban people. They cater to the credit requirements of small business and other industries activities situated in and around the catchments area of the bank. In spite of this, there is always risk of accounts becoming Working Capital Management. Therefore, need to devise suitable strategy for accounts, which have gone bad and classified as Working Capital Management.

OBJECTIVES OF THE STUDY

The following objectives are formed for the purpose of the study

i. To analyze the general function of the Banks.
ii. To study the Working Capital Management of the Salem Urban Cooperative Bank.

METHODOLOGY

TOOLS FOR DATA COLLECTION

Case study has been followed for this study. Secondary Data regarding Membership growth, share capital, Reserve fund, Deposit, Loan operation Working Capital Management etc., were collected from Audit reports, Annual reports of the bank and necessary clarifications were also obtained through personal discussion with the bank officials.

FRAME WORK OF ANALYSIS

In the process of analyzing the data collected were analyzed and presented in the form of tables, graph, growth index, ratio analysis, percentage growth rate, mean, standard deviation and coefficient variation for better understanding of the problem under the study.

PERIOD OF THE STUDY

The study covered a period of ten years from 2005- 2006 to 2014-2015.

AREA COVERED BY THE STUDY

The area covered by the study is confined to the whole Salem District.

REVIEW OF LITERATURE

Mukul G. Asher (2007) in his article Reforming Governance and Regulation of Urban Cooperative Banks in India argued a case for a paradigm shift in the way urban cooperative banks (UCBs) are managed, governed, and regulated in India to enable them to enhance their contributions to achieving greater degree of financial inclusion, and more broad

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based growth. Design / methodology / approach. The paper finds that if the UCBs are to remain relevant and play a significant developmental role in India, they will require same quality of governance and regulation as well as professionalism and modernization as the mainstream commercial banks. The governance and regulatory structures need to be brought in conformity with India's current and prospective economic structure; and relevant laws modernized. This requires a paradigm shift in the role of UCBs.

Shah Deepak (2007) investigated on a case study of Sangli and Buldana District Central Cooperative Banks regarding the financial health of credit cooperatives in Maharashtra and found NPA or over dues as main culprit for deterioration in health of these banks. The study revealed that both these banks showed a decline in their financial health and economic viability during the late nineties as against the early nineties period.

Dutta and Basak (2008) studied and suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Amit Basak (2009) examined the case study on “Performance Appraisal of Urban Cooperative Banks: A Case Study” figured that though some UCBs have performed creditably in the recent years, a large number of them have shown discernible signs of weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever-growing Non-Performing Assets (NPAs) and relatively low capital base. In this context, this paper makes an attempt to examine the working and financial performance of the UCBs. To make the analysis, the author takes up the Contai Co-operative Bank Ltd., one of the leading UCBs in West Bengal for a case study. The objective of the study is to identify and analyze the trend, progress and problems of this bank, to throw light on the problems of swelling NPAs and to offer some meaningful suggestions for improving the efficiency and effectiveness of this bank. Relevant data have been collected for the period from 1995-96 to 2006-07. This data have been analyzed with the help of statistical tools like ratios, percentages, averages and trend analysis, chi-square test, and multiple regression analysis.

Dhanappa (2009) in his study titled, “Performance Evaluation of UCBs: A Case Study of Kallappanna Awade Ichalkaranji Janata Sahakari Bank Ltd. Ichalkaranji” made an attempt to examine the working and financial performance of UCBs. The objective of the study was to examine and analyze the trend, progress and problems of this bank, and to offer some important suggestions for improving the competency and efficiency of the bank. The related data had been collected for the period from 1995- 96 to 2007-08. He used various statistical tools such as ratios, percentages, averages, and chi-square test to analyze the data, to know the performance of the UCBs in respect of share capital, deposits, reserve funds, loans and advances, investment, profit, and NPAs. He observed that the bank had maintained NPAs under control at the best stipulated level of RBI norms. There was immense instability in net profit. The bank should focus on non- interest income sources (commission based services) to increase the profit level and reduce the NPAs. CD ratio of the bank was declining continuously which was not a good signal. The economic health of the bank was sound and the Bank was able to compete with other banks. He further suggested that loans should be provided (at least to regular borrowers) on competitive rates of interest.

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Rajamohan and Pasupathy (2009) in their study titled, "Performance Evaluation of TAICO (Tamil Nadu Industrial Co-operative Bank Ltd.) − An Application of Structural and Growth Analysis" stated that there were several factors that determined the operating efficiency and profitability of the bank. In this context, the general performance of a bank can be analyzed more meaningfully and objectively for a given period of time through structural and growth analysis. Through structural analysis the figures reported in the profit and loss account and balance- sheet are converted into percentages for each period to ensure uniformity for the purpose of comparison with those of other periods. Macro mean had been used to exhibit the strength and weakness of each factor considered. The results were summarized in capsule form. Macro mean in respect of interest received constituted 96.8% of the total income; it was 81.2 % for interest paid, 18.8% for operating expenses, 91% in the case of spread and 83% for burden. It was found that the net profit recorded a negative growth of 27.8%. Growth rate of operating expenses was at 44%, spread at 15%, burden at 29% and advances at 49%. Therefore, it was recommended that the burden rate should be reduced by effecting cost control measures, and the spread rate be increased so that the profitability may be at a higher rate.

Alamelu and Devamohan (2010), in their study titled, "Efficiency of Commercial Banks in India" calculated the business ratios, such as interest income to average working funds, non-interest income to average working funds, operating profit to average working funds, return on assets, business per employee and profit per employee for public sector banks, private sector banks and foreign banks for the 45 period 2004-05 to 2008-09. It was observed that the foreign banks and new generation private banks have superior business ratios. They effectively leverage technology, outsourcing and workforce professionalism which helped them to protect their bottom line. On the other hand, the public sector banks are yet to exploit fully the advantages of vast branch network and large workforce. That's why they have unimpressive business ratios. Old generation private banks do not have impressive business ratios, as they are constrained by small size and conservatism.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

Dr. Gurcharan Singh and Sukhmani (2011) studied on "An Analytical Study of Productivity and Profitability of District Central Cooperative Banks in Punjab "focused on evaluating performance of cooperative banks in the state of Punjab. Six District Central Cooperation Bank (DCCBs) from the state of Punjab has been selected for the study. Their productivity and profitability have been studied for a period of nine years (1999-2000). It is found that profitability in all selected DCCBs of Punjab had shown a negative trend whereas the productivity improved significantly over the period of study.

OBJECTIVES OF THE BANK

- To encourage thrift, self –help and cooperative among the members.
- To provide jewel loan to the members, while the jewel loan is the back bone for all poor and middle class people.
- To accepts deposits from members.

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- To provide various types of loan to the members (i.e.,) Jewel loan, deposits loan, SSI loan.
- They accepting deposit from the public and issued loan to the members.
- To provide safety locker facilities for the document, Jewels, and valuables.
- To collect and transmit money and securities.

MEMBERSHIP

The membership of a Salem Urban Cooperative Bank comprises of persons living in urban areas. Those who are residing within the area of operation they are eligible to joining as a member of the Salem Urban Cooperative Bank. The person should complete at the age of 18 years. They should have a sound mind person.

The bank consists of **"A"** class members.

TABLE - 1
MEMBERSHIP

Sr. No.	Year	Membership (No. of Members)	Growth Index
1	2005-06	50652	-
2	2006-07	49155	97.04
3	2007-08	48126	97.90
4	2008-09	47151	100.0
5	2009-10	46334	97.97
6	2010-11	45954	98.26
7	2011-12	45783	99.17
8	2012-13	49854	99.62
9	2013-14	51902	104.10
10	2014-15	52105	100.39

SOURCES OF FUND

The primary sources of fund of the bank are Share Capital, Reserve Fund, Deposits and Borrowings.

TABLE – 2
SHARE CAPITAL

Sr. No.	Year	Share Capital (Rs. in Crores)	Growth Index	Reserve Fund (Rs. in Crores)	Growth Index	Deposits (Rs. in Crores)	Growth Index
1	2005-06	60.83	-	67.39	-	13.40	-
2	2006-07	54.44	89.49	72.59	107.71	13.17	101.59
3	2007-08	46.51	85.43	76.87	105.89	15.42	98.28
4	2008-09	42.60	91.59	79.77	103.77	17.10	117.08
5	2009-10	39.64	93.05	82.07	102.88	20.10	110.89
6	2010-11	36.64	92.43	91.47	111.45	23.54	117.54
7	2011-12	35.10	95.79	97.96	107.09	25.56	117.11
8	2012-13	35.07	99.91	10.96	11.18	30.12	108.58
9	2013-14	46.90	133.73	11.37	103.74	39.53	131.24
10	2014-15	59.18	126.18	19.35	170.18	42.45	107.38

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LENDING OPERATION

The Bank grants different types of loan to its members as well as public namely jewel loan and Deposit loan.

TABLE - 3
LOANS AND ADVANCES

Sr. No.	Year	Loans and Advances (Rs. In Crores)	Growth Index
1	2005-06	85.23	-
2	2006-07	80.38	94.30
3	2007-08	91.06	113.28
4	2008-09	96.67	106.16
5	2009-10	12.27	12.69
6	2010-11	15.82	128.93
7	2011-12	18.44	116.56
8	2012-13	20.93	113.50
9	2013-14	24.32	116.19
10	2014-15	28.53	117.31

RATIO ANALYSIS
INTRODUCTION

A ratio is simple arithmetical expression of the relationship of one number to another. If may be defined in the high light of finding and suggestion have been arrived for improving the financial statement analysis. It may be defined as the indicated quotient of 2 mathematical expressions. In a simple language ratio is one number expressed in items of another and can be worked out by dividing one number in to another.

The ratio analysis is one of the most powerful tools of financial analysis. It is the process of establishing and interpreting various ratios. It is with the help of ratio that the financial statement can be analyzed more clearly.

LIMITATIONS OF RATIO ANALYSIS

The ratio analysis is one of the most powerful tools of financial management. Though ratios are simple to calculate and easy to understand, they suffer from some serious limitations:

- Limited use of single ratios does not convey much of sense.
- There are no well accepted standard or rules of thumbs for all ratios which can be accepted as norms.
- Ratios of the past are not necessary true indicators of the future.
- Change in accounting procedure by a firm often makes ratio analysis misleading.
- Financial statement can easily be window dressed to present a better of it and profitability position to outsiders.

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LIQUIDITY RATIO

Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. The short term obligations are met by realizing amounts from current, floating on circulating assets. The current assets should either be liquid or near liquidity. These should be convertible into cash for paying obligations of short-term nature. The bankers, suppliers of goods and other short-term creditors are interested in the liquidity of the concern. They are:

I. Current Ratio
II. Liquid Ratio
III. Absolute Liquid Ratio

CURRENT RATIO

Current ratio may be defined as the relationship between current assets and current liabilities. Current assets are cash in hand, cash at bank, marketable securities, bills receivable, sundry debtors, inventories, work in progress, prepaid expenses. Current liabilities are outstanding expenses, bills payable, sundry creditors, short term advances, income tax payable, dividend payable, bank overdraft. This ratio, also known as working capital ratio, is a measure of general liquidity and is most widely used to make the analysis of a short -term financial position or liquidity of a firm. It is calculated by dividing the total of current assets by total of the current liabilities.

Formula

Current Ratio = Current Assets / Current Liabilities

TABLE - 4
CURRENT RATIO

Sr. No	Year	C.A	C.L	Ratio
1	2005-2006	2985.90	8532.81	0.34
2	2006-2007	3377.37	9238.39	0.36
3	2007-2008	2824.59	9853.58	0.28
4	2008-2009	6904.00	1841.53	3.74
5	2009-2010	4517.69	1599.13	2.82
6	2010-2011	2556.52	9352.68	0.27
7	2011-2012	4199.53	1027.45	4.08
8	2012-2013	1911.69	2964.62	0.64
9	2013-2014	2717.89	2418.82	1.12
10	2014-2015	3218.26	2915.39	1.10
	Average	**35213.61**	**49744.4**	**0.70**

Table 4 shows the current ratio of cooperative bank for the study period. The current ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2011-12 i.e.4.08.

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LIQUID RATIO

This ratio is used to access firm's short term liquidity. The relationship of liquid asset to current liabilities is known as liquid ratio. It is otherwise called as quick ratio or acid test ratio. Liquid assets are cash in hand, cash at bank, bills receivable, sundry debtors, marketable securities. Asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value.

Formula

Liquid Ratio = Liquid asset / Current Liabilities

TABLE - 5
LIQUID RATIO

Sr. No.	Year	L.A	C.L	Ratio
1	2005-2006	2979.25	8532.81	0.34
2	2006-2007	3377.37	9238.39	0.36
3	2007-2008	2823.67	9853.58	0.28
4	2008-2009	6811.64	1841.53	3.69
5	2009-2010	3071.73	1599.13	1.92
6	2010-2011	3610.17	9352.68	0.38
7	2011-2012	4144.23	1027.49	4.03
8	2012-2013	1658.01	2964.62	1.30
9	2013-2014	2556.52	1911.69	1.33
10	2014-2015	2914.45	2613.67	1.11
	Average	**30875.28**	**48935.59**	**0.63**

Table 5 shows the liquid ratio of cooperative bank for the study period. The liquid ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2011-12 i.e.4.03.

ABSOLUTE LIQUID RATIO

This ratio is concerned with the relationship between absolute liquid assets and current liabilities. Absolute liquid assets include cash in hand, cash at bank and marketable securities or temporary investments. The acceptable norm for this ratio.

Formula

Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

TABLE - 6
ABSOLUTE LIQUIDE RATIO

Sr. N0.	Year	A.L.A	C.L	Ratio
1	2005-2006	2198.92	8532.81	0.25
2	2006-2007	3355.93	9238.39	0.36
3	2007-2008	2822.11	9853.58	0.28
4	2008-2009	6563.97	1841.53	3.56
5	2009-2010	2983.44	1599.13	1.86

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6	2010-2011	2872.29	9352.68	0.30
7	2011-2012	3144.23	1027.49	3.06
8	2012-2013	3880.22	2964.62	1.30
9	2013-2014	5956.36	2872.29	2.07
10	2014-2015	6924.52	3193.22	2.16
	Average	**40701.99**	**50475.74**	**0.80**

Table 6 shows the absolute liquid ratio of cooperative bank for the study period. The absolute liquid ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2008-09 i.e.3.56.

NET WORKING CAPITAL TO CURRENT LIABILITIES

This ratio shows the relationship between net working capital and current liabilities. It shows the financing mix that is used for financing the current asset. It also reveals the equity and long-term vice versa current liability financed portion of current assets.

Formula

Net Working Capital to Current Liabilities = Net Working Capital / Current Liabilities

TABLE - 7

NET WORKING CAPITAL TO CURRENT LIABILITY

Sr. No.	Year	N.W.C	C.L	Ratio
1	2005-2006	5546.91	3664.62	1.51
2	2006-2007	5861.02	4305.86	1.36
3	2007-2008	1839.23	6609.87	0.27
4	2008-2009	1151.13	1378.64	0.83
5	2009-2010	2918.56	2462.79	1.85
6	2010-2011	6796.16	1803.92	3.76
7	2011-2012	3172.20	3660.46	0.86
8	2012-2013	1052.92	2904.62	0.35
9	2013-2014	9687.75	3679.95	2.63
10	2014-2015	6232.04	4936.11	1.26
	Average	**44257.92**	**35406.84**	**1.24**

Table 7 shows the net working capital to current liability of cooperative bank for the study period. The net working capital to current liability ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2010-11 i.e.3.76.

NET WORKING CAPITAL TO NET WORTH

The purpose of this ratio is to show the proportion of the proprietor’s fund invested in net working capital. The higher the proportion the higher will be the amount of owner’s funds invested in net working capital as a cover for long-term debts. The lower proportion will be the amount of owner’ funds invested in net working capital.

Formula

Net Working Capital to Networth = Net Working Capital / Net worth

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TABLE - 8
NET WORKING CAPITAL TO NET WORTH

Sr. No.	Year	N.W.C	N.W	Ratio
1	2005-2006	3664.62	8532.81	0.42
2	2006-2007	4305.86	9238.39	0.46
3	2007-2008	6609.87	9853.58	0.67
4	2008-2009	1378.64	1841.53	0.74
5	2009-2010	2462.79	1599.13	1.54
6	2010-2011	1803.92	9352.68	0.19
7	2011-2012	3660.46	1027.45	3.56
8	2012-2013	3674.10	2964.62	1.23
9	2013-2014	4687.80	4576.30	1.02
10	2014-2015	5680.25	5570.53	1.03
	Average	**39728.31**	**54557.02**	**0.72**

Table 8 shows the net working capital to net worth of cooperative bank for the study period. The net working capital to net worth ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2011-12 i.e.3.56.

CASH RATIO

Cash is the lifeblood of a business firm. It is needed to acquire suppliers, resources, equipment and other assets used in generating the products and services business. It is also an ultimate output expected to be realized and the firm should keep sufficient cash, neither more or less.

Cash shortage will descript the firm’s manufacturing operations while excessive cash will simply remain idle without contributing anything towards the firm’s profitability. Thus, a major function of the financial manager is to maintain a sound cash position.

CASH TO CURRENT ASSETS RATIO

This ratio indicates the relationship between cash and current assets. It is said the cash in a well-financed company should not be less than 5% to 10% of current assets. It helps to determine the minimum level of cash in current assets could be caused due to reduction of credit.

Formula

Cash to Current Assets Ratio = Cash / Current Assets

TABLE - 9
CASH TO CURRENT ASSET RATIO

Sr. No.	Year	Cash	C.A	Ratio
1	2005-2006	1859.01	2985.90	0.62
2	2006-2007	1817.20	3377.37	0.53
3	2007-2008	2396.26	2824.59	0.84
4	2008-2009	2675.47	6904.00	0.38

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5	2009-2010	2483.44	4517.69	0.54
6	2010-2011	2484.49	2556.52	0.97
7	2011-2012	3136.41	4199.53	0.74
8	2012-2013	2469.12	1911.69	1.29
9	2013-2014	4258.15	1326.14	3.21
10	2014-2015	3260.58	1042.83	3.12
	Average	**26840.22**	**31646.26**	**0.84**

Table 9 shows the cash to current asset ratio of cooperative bank for the study period. The cash to current asset ratio was higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2013-14 i.e.3.21.

DEBTORS TO CURRENT ASSETS RATIO

The ratio explains is also one of the portions in the current assets. It says the amount receivables per rupee of current asset investment and its size in current assets. By making a comparison over a period of years, we can know the firms changing policies with regard to the level of receivables in working capital.

Formula

Debtors to Current Assets Ratio = Debtors / Current Assets

TABLE - 10

DEBTORS TO CURRENT ASSET RATIO

S.NO	Year	DEB	C.A	Ratio
1	2005-2006	6631.64	2985.90	2.22
2	2006-2007	7996.59	3377.37	2.36
3	2007-2008	1061.14	2824.59	0.37
4	2008-2009	4623.10	6904.00	0.66
5	2009-2010	176.37	4517.69	0.39
6	2010-2011	1855.94	2556.52	0.72
7	2011-2012	1567.33	4199.53	0.37
8	2012-2013	1017.03	1911.69	0.53
9	2013-2014	1240.38	1336.77	0.92
10	2014-2015	2124.30	1042.33	2.03
	Average	**28293.82**	**31656.39**	**0.89**

Table 10 shows the debtors to current asset ratio of cooperative bank for the study period. The debtors to current asset ratio were higher than the rule thumb of 2:1. A high ratio was observed in Salem Urban Cooperative Bank in the year 2006-07 i.e.2.36.

CONCLUSION

The overall financial performance of the UCB's in all fronts namely, Membership, Share Capital, Deposits, Loans and Advances, Profit and Reserve Funds, working capital, Overdoes, Loans issued etc., are showing a significantly and undistrubing trend through the application of different statistical tools applied in the study. Therefore, it may be undoubtfuly concluded that the UCB's are the road of progress. Co-operation is a better choice as compared to the Corporate Sector if run on trust, honesty and confidence. The Government

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and Reserve Bank should sponsor this field in the interest of the common man in the area. No doubt the future of UCBs is bright but at the same time it is challenging. For every UCB coordination between management, customers and regulators is an important aspect. The experienced and enlightened The UCBs should bring in mind that they should firstly survive in the present world of competition and then grow. They should accept the challenge and succeed by giving better customer service at a competitive cost.

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